

# Summary

The main task of the Fiscal Policy Council is to review and evaluate the extent to which fiscal and economic policy objectives are being achieved. Our most important conclusions are as follows:

## *Economic conditions and stabilisation policy*

1. Swedish GDP grew by 4.1 per cent in 2015. The upturn was broad-based: exports, investments and household consumption increased. Most analysts believe that the Swedish economy will enter a period of high economic activity in 2016. At the same time, there are significant risks of a weaker international economy.
2. Despite the strong cyclical position, fiscal policy remains expansive. Stabilisation policy considerations suggest instead that the fiscal policy should be considerably more restrictive in the years 2016-2018 than the policy that the Government is presenting in its 2016 Spring Fiscal Policy Bill.

## *The surplus target and the expenditure ceiling*

3. The Council notes that there is a significant deviation between net lending and the requirements of the surplus target, despite the fact that the economy is entering a period of high economic activity. According to the Government's own calculations, this deviation may only be explained to a small degree by temporarily high expenditure for asylum immigration.
4. The Government was previously clear in its use of the principle "krona for krona" for financing all reforms, which could be viewed as a commitment to reinforce structural net lending at a rate consistent with fully financed reforms. The Council notes that this principle has been abandoned. There are now no commitments to when and how the surplus target is to be achieved.
5. The Government is obliged to take action to comply with the expenditure ceiling if the ceiling is under threat, but should have refrained from the use of accounting measures at the end of 2015 to increase the likelihood of complying with the expenditure ceiling in 2016.

6. There are worrying developments in several expenditure areas. This includes, but is not limited to, the cost of asylum immigration. Health insurance expenditure is rising rapidly. Expenditure on assistance compensation has been increasing steadily for a long time. There are a number of deficiencies in the structure of the system that have been thoroughly investigated and are well known. We believe that a comprehensive reform of the assistance system is needed in order to slow down this expenditure trend.
7. The Government has not presented any arguments against active budgetary consolidation measures, even though there is a deviation from the surplus target. Nor is there any commitment to finance unforeseen increases in expenditure or reforms. All in all, this is a breach of the fiscal framework.

#### *Follow-up of the surplus target*

8. Viewed in the long term, the surplus target has not been achieved. This indicates that the system of following up on and resolving deviations is not working. If the surplus target is lowered, it is even more important that it is reached. Deficiencies in the follow-up should be rectified as a matter of urgency.

#### *Long-term sustainability*

9. The retirement age needs to be raised gradually in order for public finances to be sustainable in the long term and generate acceptable pensions. The custom of retiring at the age of 65 needs to be changed.
10. Unless integration of newly arrived immigrants into the labour market is improved, asylum immigration will be an additional long-term burden on public finances.

#### *Employment and unemployment*

11. The Council believes that the Government will not achieve its target of the lowest unemployment rate in the EU by the year 2020. The main reason for this assessment is the fact that youth unemployment among students, for institutional reasons, repre-

sents a comparatively high proportion of unemployment in Sweden.

12. In the 2015 report we highlighted the risks of the conflicts in targets that exist between the Government's unemployment targets and other economic policy targets. The risk that, for example, credit-financed fiscal stimuli will cause the economy to overheat is a genuine one, as the government has stated that the unemployment target will guide economic policy.
13. The Council believes that it would be better for the Government to reformulate its unemployment target in the form of separate targets for different groups. Examples of such targets are a target to improve integration into the labour market for asylum immigrants, a target for quicker entry into the labour market for young people and a target for a gradual increase in the retirement age.

#### *Asylum immigration and integration into the labour market*

14. Asylum immigration was exceptionally high in 2015. Available evidence tells us that it will take a long time for new arrivals to find work. A particular concern is the high level of unemployment and what is by Swedish standards a very low level of employment among people born in Africa and Asia. This situation has not improved despite the strong economic recovery in recent years.
15. We agree with the Government that the high level of asylum immigration justifies educational initiatives, increased labour market initiatives and more subsidised employment. We do, however, believe that it is also necessary to stimulate the creation of more jobs with low requirements of qualifications in both private and public sectors. New forms of employment with lower wages may be a tool to stimulate such a trend.
16. Lower starting wages will probably have little effect on overall employment, but the effects may be greater for weak groups. We believe that there is little risk that a deviation from current minimum wage levels will spill over into lower wages for other groups.

17. Wage setting is a matter for the social partners. The Council does, however, believe that the Government should urgently appoint a commission of experts charged with the task of supporting the social partners in their work to improve labour market integration and to draw up other proposals for measures to facilitate the transition of new immigrants into the labour market.

*The housing market*

18. It is unclear whether the measures to dampen the housing price trend and household indebtedness - mortgage requirements and debt ratio ceiling - will be appropriate and sufficient to create the conditions for a stable and long term sustainable development. Other measures, e.g. limitations in interest deductions and an increased property charge ceiling, should not be discounted.
19. The Council has commissioned an analysis of the effects of limiting interest rate deductions and increasing the property charge ceiling. This analysis shows that the effects on disposable income of a limitation in the interest deduction are small and primarily increasing with income. An increase in the property charge ceiling has an even clearer progressive distribution profile.

*Income distribution and economic equality between women and men*

20. Between 1995 and 2014 income rose in all segments of the income distribution, while at the same time income differences showed a rising trend. The biggest increase in income differences took place between 2007 and 2010. Households with income below the median then had a poorer trend than other income groups, while the very highest incomes rose significantly. The percentage of people in absolute poverty has remained approximately constant since 2007, while the percentage of people in relative poverty has increased substantially during the same period.
21. The Council has performed a review of the Government's appendices on economic equality to the Budget Bills for 1989-2016. It is our assessment that they provide a good description of the distribution of economic resources between women and men. The Council does, however, believe that the analysis in the

appendices can be developed. The Government should specify time-based targets for economic equality and regularly evaluate the policy pursued towards these targets.

### *Infrastructure*

22. In last year's report the Council discussed the economic significance of the transport infrastructure and the obvious shortcomings in the system for prioritising between different projects. We suggested that a framework for decisions on infrastructure should be introduced. The objective of a framework should be to clarify the economic deliberations without restricting the political power of decision. Despite the importance of this area of policy, the Budget Bill for 2016 does not contain any discussions of such a framework.
23. It has been suggested that investments in high-speed railways between Stockholm and Gothenburg/Malmö be financed by loans from the National Debt Office instead of normal public funding. The choice between these forms of financing does not affect net lending, and therefore nor does it affect the surplus target. By contrast, the suggested form of financing would mean that the investment is exempted from the review of expenses and operations involved in a normal budgetary process. The fact that the costs are so high is an argument for more meticulous review, not less.
24. The planned investments in high-speed railways are considered to be very unprofitable in economic terms. This is true regardless of how the investments are financed. These investments should therefore not be implemented.

### *Caution in calculations of behavioural effects*

25. When calculating the additional tax revenues generated by proposed tax increases, the Government ignores the fact that weaker incentives have a negative impact on labour supply. Tax income will thus increase by far less than the Government assumes. The Government's reforms are thus partly financed by revenue that most likely will not be realised.

*Climate policy*

26. The Council argues that Swedish climate policy should be formulated so that it contributes to reducing global greenhouse gas emissions at the lowest possible economic cost. In its Budget Bill for 2016, the Government explains that they intend to scale down initiatives outside the country's borders and instead increase the initiatives within Sweden to reduce greenhouse gas emissions. This shift in policy means an increase in the costs of reducing greenhouse gas emissions.
27. There is no empirical support to suggest that a Swedish climate policy that is stricter than that of the outside world would enhance Sweden's competitive strength. Such a perception should therefore not form a basis of Swedish climate policy.
28. The Council's view is that the major global challenge is to reduce carbon emissions from coal in a cost-efficient way. The Council therefore believes that Swedish climate policy - in addition to the commitments Sweden has within the EU - over the decades ahead should be focused on those measures that contribute directly or indirectly to phasing out global coal usage. It is not evident that the current focus of climate policy on a rapid reduction in the use of oil in Sweden contributes to such a trend.